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PAGE 01 STATE 081581

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TO AMEMBASSY LISBON
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SUBJECT: PROPOSAL TO REDUCE U.S. TARIFFS ON CORK PRODUCTS

REF: LISBON 1684

1. WHILE DEPARTMENT RECOGNIZES THAT THERE MAY BE POTENTIAL
POLITICAL BENEFIT TO BE GAINED FROM REDUCTION OF DUTIES ON
PORTUGUESE CORK PRODUCTS, LEGISLATIVE AND ADMINISTRATIVE
CONSTRAINTS MAKE SUCH REDUCTIONS UNLIKELY IN NEAR FUTURE.
EMBASSY OF COURSE AWARE THAT DUTIES MIGHT BE REDUCED
THROUGH THE MULTILATERAL TRADE NEGOTIATIONS (MTN). ANOTHER
POSSIBILITY WOULD BE TARIFF REDUCTIONS THROUGH APPLICATION
OF GENERALIZED SYSTEM OF PREFERENCES (GSP) TO PORTUGAL
SHOULD LATER BE DESIGNATED BENEFICIARY COUNTRY. OTHER
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PAGE 02 STATE 081581

HYPOTHETICAL SOLUTIONS AUTHORIZED UNDER TRADE ACT WOULD
BE TARIFF REDUCTIONS EFFECTED THROUGH BILATERAL AGREEMENT

OR BY MEANS OF AN ACT OF CONGRESS. IN VIEW OF CURRENT U.S. EFFORTS TO IMPLEMENT TRADE ACT'S AUTHORITY TO UNDERTAKE MAJOR PROGRAM OF TRADE LIBERALIZATION THROUGH AUSPICES OF MTN, LATTER TWO OPTIONS DO NOT APPEAR REALISTIC OR DESIRABLE AT THIS TIME.

2. IN DEPARTMENT'S VIEW BEST PROSPECT FOR PROMPT DUTY REDUCTION APPEARS TO BE THROUGH DESIGNATION OF PORTUGAL AS GSP BENEFICIARY COUNTRY. AS EMBASSY AWARE, PORTUGAL WAS LISTED IN MARCH 24 EXECUTIVE ORDER AS COUNTRY STILL UNDER CONSIDERATION FOR DESIGNATION AS GSP BENEFICIARY COUNTRY (SEE PARA 5 OF STATE 664923. IT WOULD BE HELPFUL IN REVIEW OF PORTUGAL'S STATUS UNDER GSP TO HAVE SOME INDICATION OF PORTUGUESE WILLINGNESS TO BE DESIGNATED BENEFICIARY AND, IF POSSIBLE, AN INDICATION OF PORTUGUESE WILLINGNESS TO OFFSET ADVERSE EFFECTS OF PORTUGUESE-EC ASSOCIATION ON U.S. COMMERCE WHERE THEY OCCUR. ALL CORK PRODUCTS MENTIONED IN PARA 1 OF REFTTEL ARE ON LIST OF ARTICLES TO BE CONSIDERED FOR GSP ELIGIBILITY TRANSMITTED TO ITC. HOWEVER, SINCE PORTUGAL SUPPLIES OVER 50 PERCENT OF TOTAL U.S. IMPORTS OF MANY OF THESE ARTICLES, IMPORTS FROM PORTUGAL OF THESE ITEMS WOULD NOT RECEIVE DUTY-FREE TREATMENT BY REASON OF COMPETITIVE NEED CEILINGS (SECTION 504(C)) UNLESS IT WERE DETERMINED THAT NO RPT NO LIKE OR DIRECTLY COMPETITIVE ARTICLE IS PRODUCED IN THE U.S. WASHINGTON AGENCIES HAVE NOT YET IDENTIFIED ARTICLES WHERE NO LIKE OR DIRECTLY COMPETITIVE ARTICLE IS PRODUCED IN THE U.S.

3. IF PORTUGAL IS NOT FOUND ELIGIBLE FOR GSP OR IF CORK IMPORTS FROM PORTUGAL DO NOT QUALIFY FOR DUTY-FREE TREATMENT UNDER GSP, THERE IS STILL A GOOD POSSIBILITY OF REDUCTIONS DURING THE MULTILATERAL TRADE NEGOTIATIONS. RATES ON CORK WERE REDUCED BY FORTY-FIVE PERCENT DURING THE KENNEDY ROUND AND WE WOULD EXPECT THAT CORK WOULD AGAIN BE COVERED UNDER ANY GENERAL TARIFF REDUCTIONS IN THE MTN. THIS IS ADMITTEDLY A LONGER RANGE PROSPECT AND NOT OF IMMEDIATE BENEFIT. HOWEVER, MOST OF THE ITEMS HAVE SPECIFIC DUTIES WITH AD VALOREM EQUIVALENTS NEAR OR BELOW 5.0 PERCENT IN 1974. THE MOST IMPORTANT ITEMS COULD THUS LIMITED OFFICIAL USE
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PAGE 03 STATE 081581

POTENTIALLY QUALIFY FOR COMPLETE ELIMINATION OF DUTIES UNDER THE TERMS OF THE TRADE ACT. NEGOTIATIONS ON ACTUAL TARIFF REDUCTIONS IN THE MTN CANNOT BEGIN UNTIL U.S. DOMESTIC PROCEDURES ARE COMPLETED, AFTER WHICH THE U.S. CAN THEN SUBMIT AN OFFERS LIST. THESE PROCEDURES INCLUDE HEARINGS BEFORE THE INTERNATIONAL TRADE (FORMERLY TRIFF) COMMISSION OR THE TRADE INFORMATION COMMITTEE, AND ANYONE FAVORING OR OPPOSING THE REDUCTION OF DUTIES ON CORK MAY TESTIFY AT EITHER OF THESE. EMBASSY SHOULD SUGGEST THAT U.S. FIRMS HAVE THEIR U.S. AFFILIATES MAKE PROPOSALS KNOWN

IN THESE FORUMS, SHOULD THEY WISH TO PURSUE MATTER.

4. AT STATISTICAL LEVEL, DEPARTMENT PUZZLED OVER FIGURES GIVEN IN PARAGRAPH TWO OF REFTEL. WE DO NOT KNOW WHAT CLASSIFICATION SYSTEM PORTUGUESE USED FOR CORK EXPORTS BUT U.S. FIGURES ARE MUCH DIFFERENT. IF COVERAGE IS CONFINED TO THE TSUS CATEGORY 220 ITEMS, U.S. CENSUS IMPORT FIGURES ARE AS FOLLOWS:

-- 1974 IMPORTS CHANGE FROM 1973
-- (THOUSANDS DOLLARS) (THOUSANDS DOLLARS)

-- U.S. FROM U.S. FROM
-- TOTAL PORTUGAL TOTAL PORTUGAL

TOTAL CATEGORY 19,273 14,834 1,901 1,242

PARA 1 ITEMS 9,405 7,605 1,033 982
(REFTEL)

OTHER 9,868 7,229 868 260

FIGURES BASED ON U.S. CUSTOMS VALUE BASIS.

INCLUDING OTHER ITEMS SUCH AS CORK FLOOR COVERING, FISHING ROD PARTS AND OTHER FISHING EQUIPMENT, TOTAL IMPORTS FROM PORTUGAL FOR 1974 WOULD BE 17.2 MILLION DOLLARS ALTHOUGH CORK ITEMS IN THE LAST TWO CATEGORIES CANNOT BE SPECIFICALLY IDENTIFIED. IMPORTS OF THESE TWO ITEMS ALONE ROSE BY 820 THOUSAND DOLLARS OVER 1973. WE CANNOT DISTINGUISH CORK IN OTHER APPLICATIONS SUCH AS FOOTWEAR, LIMITED OFFICIAL USE
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PAGE 04 STATE 081581

GAMES, TOYS, ETC.

5. EVEN MORE SIGNIFICANT, THE THREE ITEMS FOR WHICH U.S. IMPORTS FROM PORTUGAL DECLINED IN 1974 WERE NOT HIGH DUTY ITEMS. TWO OF THESE ITEMS--220.15 AND 220.30--WERE NOT INCLUDED IN THE REFTEL PARA 1 LIST. ITEM 220.30 (COMPRESSED CORKBOARD INSULATION) IS DUTY FREE YET IT SUFFERED A DECLINE OF 327 THOUSAND DOLLARS IN THE FACE OF AN INCREASE OF 107 THOUSAND DOLLARS FOR TOTAL U.S. IMPORTS.

6. PORTUGAL'S EXPORTS TO THE U.S. MIGHT INDEED BE STIMULATED THROUGH LOWER DUTIES ESPECIALLY IF PRICE DIFFERENTIALS WITH SUBSTITUTES ARE VERY NARROW, I.E., HIGH ELASTICITY OF SUBSTITUTION. THIS WE ARE UNABLE TO JUDGE BUT THE ABOVE FIGURES DO NOT SUPPORT A PICTURE OF DECLINING U.S. IMPORTS FROM PORTUGAL OR OF DETERIORATION DUE TO TARIFF BARRIERS.

7. DEPARTMENT WOULD APPRECIATE ANY OBSERVATIONS THE EMBASSY MAY HAVE ON RECONCILING THE U.S. CENSUS AND PORTUGUESE FIGURES AND ANY FURTHER COMMENT ON SITUATION WHICH MAY PORTEND DECLINE IN 1975.

8. DEPARTMENT WILL IN ANY CASE KEEP THIS SUBJECT UNDER STUDY TO DETERMINE IF FURTHER STEPS, OR POSSIBLY CONSIDERATION OF SPECIAL BILATERAL INITIATIVES, WOULD BE IN OUR POLITICAL AND ECONOMIC INTEREST. KISSINGER

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